Systems Update

A publication of the South Carolina Retirement Systems

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From the Director

Our perspective on the Kennedy case

You may have seen recent news reports about a South Carolina State Supreme Court decision affecting the South Carolina Retirement Systems. We would like to share with you what has taken place and how it may affect you.

In 1986, the South Carolina General Assembly amended the statute governing the computation of the retirement benefit for members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS). The stated purpose of the amendment was to revise the calculation of the average final compensation (AFC) to use the *12 highest consecutive quarters of compensation* rather than the *three highest consecutive fiscal years of compensation*. However, the amendment also changed the language concerning the inclusion of unused annual leave in the AFC.

In Kennedy et al. versus the South Carolina Retirement Systems and the South Carolina State Budget and Control Board, the plaintiffs contended that the effect of the new language regarding annual leave was to significantly increase the retirement benefit. The Retirement Systems interpreted the language as having no impact and continued to credit unused annual leave in the method used prior to the 1986 change in the law. On May 22, 2000, the South Carolina State Supreme Court ruled in favor of the plaintiffs and returned the case to the lower court for final resolution.

Using a simplified example will best illustrate the issue and the potential impact on the Retirement Systems. Let's assume a retiring member has 45 days of accrued annual leave and a salary of exactly $30,000 per year for three consecutive years (or $7,500 per quarter for 12 consecutive quarters). Both the plaintiffs and the Retirement Systems would agree that the value of the annual leave is approximately $5,200; however, they would calculate the retirement benefit differently.

Retirement Systems' Calculation Method

$$\frac{\$30{,}000 + \$30{,}000 + \$30{,}000 + \$5{,}200}{3 \text{ years}} = \frac{\$95{,}200}{3 \text{ years}} = \mathbf{\$31{,}733 \text{ per year}}$$

Plaintiffs' Calculation Method

$$\frac{(\$30{,}000 + \$30{,}000 + \$30{,}000)}{3 \text{ years}} = \frac{\$90{,}000}{3 \text{ years}} = \$30{,}000 + \$5{,}200 = \mathbf{\$35{,}200 \text{ per year}}$$

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28-year retirement effective 2001

Effective January 1, 2001, members of the South Carolina Retirement System (SCRS) will be eligible to retire without a penalty with 28 years of service instead of the current 30 years of service. The retirement benefit will be calculated on the SCRS member's actual years of service.

We will notify you when this change becomes law.

Example: 30 years x .0182 = 54.6% of replacement income
28 years x .0182 = 51.0% of replacement income

Inside this issue

Cost, types of service available for purchase to change effective January 1, 2001

Effective January 1, 2001, the cost and types of service available for purchase will change. These changes simplify the service purchase process and make service purchases available to almost all **active** contributing members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS).

Minimum Service Requirement

You must have five years of **earned service** (paid employment as a teacher or employee during which regular contributions are paid to the system) to be vested; to qualify for service or disability retirement; and, to qualify a survivor for a monthly annuity after an in-service death.

Types of service

The types of service eligible for purchase effective January 1, 2001, are described below:

- **Public Service.** Any period of paid public service that is service as an employee of the government of the United States, a state, or a political subdivision of the United States. You may not purchase service for a period of public service for which you also may receive a retirement benefit from another retirement plan. Student employment, other than as a bus driver, is not eligible for purchase.
- **Educational Service.** Any period of paid classroom teaching consisting of grades kindergarten through 12 in a public, private, or sectarian school. You may not purchase service for a period of educational service for which you also may receive a retirement benefit from another retirement plan.
- **Military Service.** Any period of military service up to six years, including National Guard and Select Reserves. Discharge from service must be under conditions other than dishonorable.
- **Leave of Absence.** Any period of employer-approved leave up to a maximum of two years per leave of absence. The leave of absence must be with an employer participating in the Retirement Systems.
- **Previously Withdrawn Service.** Any period of service previously withdrawn. The reestablished service must be earned service to qualify toward the required five-year minimum of earned service for retirement benefit eligibility. The cost is based on the amount withdrawn plus interest.
- **Non-qualified Service.** Any period of non-qualified service up to a maximum of five years. You are eligible to purchase non-qualified service if you have five years of earned service. The cost is 35 percent of current salary or career highest fiscal year salary whichever is greater.
- **Special Monthly Contributor.** A member who has at least 25 years of service may elect to receive up to three additional years of service credit by paying the employee and employer contributions based on the salary level in effect during those years. Contributions under this program begin at the time of termination from covered employment.

Service purchase cost

The cost for service purchases, except for previously withdrawn service, non-qualified service and special monthly contributor, as described above, is 16 percent of current salary or career highest fiscal year salary whichever is greater. The cost for purchases of periods less than one year is prorated. The cost remains unchanged for converting Class I service to Class II service and transferring service between correlated systems. Please contact the Retirement Systems for more detailed information about the cost of purchasing service.

You may purchase service by making a lump-sum payment, transfer funds directly from your 401(k) or other qualified retirement plan, or use our Installment Service Purchase program (11 percent interest rate effective July 1, 2000). You may purchase each type of service once per fiscal year. Purchased service credit, other than earned service previously withdrawn and reestablished, is not earned service and does not count toward the five-year minimum of earned service for retirement benefit eligibility.

To take advantage of current service purchase rates, your request must be received no later than December 31, 2000. Payment for invoices issued on the current rates must be remitted by June 30, 2001. You must complete your purchase while an active employee. Service purchase requests received on or after January 1, 2001, will be subject to the new rates and rules.

For more information on purchasing service credit, contact the Retirement Systems toll free at 1-800-868-9002 (in SC only) or at 1-803-737-6800.

If you are considering purchasing service credit to meet retirement eligibility and are covered by a state health insurance plan, you may want to call the Office of Insurance Services toll free at 1-888-260-9430 (in SC only) or at 1-803-734-0678 for more information. Purchasing service may not help you meet state-sponsored health insurance eligibility requirements.

Teacher and Employee Retention Incentive program available to SCRS members who will retire on or after January 1, 2001

If you are an active member of the South Carolina Retirement System (SCRS) who is eligible for service retirement on or after January 1, 2001, you may participate in the Teacher and Employee Retention Incentive (TERI) program.

TERI allows you to retire and begin accumulating your retirement benefit without terminating your employment. By participating in TERI, you may defer your retirement benefit for up to five years. Your deferred retirement benefit is placed in a special trust account and, upon termination of employment or at the end of your TERI period, whichever is earlier, you will receive your accumulated retirement benefit in either a taxable, lump-sum distribution or through a rollover into a qualified, tax-sheltered retirement plan. You will then begin receiving your monthly service retirement benefit plus any cost-of-living increases granted during your TERI period.

No interest is paid on your deferred monthly benefit during the TERI period. Since, as a TERI participant, you are technically retired, you do not make SCRS contributions. You do not earn service credit during the TERI period and you are ineligible to receive active group life insurance benefits or disability retirement benefits. You may participate in TERI and receive a benefit only once. During the TERI period, you are exempt from the service retirement earnings limitation. If you continue to work for a covered employer once your TERI period ends, you will be subject to the service retirement earnings limitation.

If you die while a TERI participant, your designated retirement annuity beneficiary will receive the balance of your accumulated TERI retirement benefit in a taxable, lump-sum distribution. A spousal beneficiary may also roll over the taxable portion of the benefit into an Individual Retirement Account (IRA) only.

If you fail to terminate employment with an employer participating in SCRS within one month after the end of your TERI period, you will receive your normal retirement benefit and the balance of your accumulated TERI retirement benefit in either a taxable, lump-sum distribution or through a rollover into a qualified, tax-sheltered retirement plan.

If you are interested in participating in the TERI program, please contact your employer or the Retirement Systems for more information. ***We will notify you when this change becomes law.***

401(k) match program for FY 2000-2001

The South Carolina State Budget and Control Board approved a proposal that continues the 401(k) match program established in 1999. The proposal, submitted to the Budget and Control Board by the South Carolina Deferred Compensation Commission, enhances the 401(k) match program for fiscal year (FY) 2000-2001. Plus, the South Carolina General Assembly passed legislation extending the 401(k) match program to public school teachers.

- The per-person employer match will increase to no more than $300 from $118 last year.
- Employers may make contributions to deferred compensation accounts on behalf of permanent, full-time employees who were employed and making less than $20,000 per year as of July 1, 2000, without such employees making contributions to a deferred compensation plan.
- Employers may apply the match proportionally to each payroll in the month.
- The match may be provided to each eligible employee until the funds designated for the match program are exhausted.
- Any full-time, permanent state employee or temporary grant employee who is actively contributing to a 401(k), a 457, or a 403(b) account is eligible to receive the match.
- The match, which is paid by the employer, will be placed automatically in the employee's Deferred Compensation 401(k) account.
- An employee may request that the employer place his or her match in his 403(b) account as long as the 403(b) provider meets all Internal Revenue Code regulations governing receipt of employer match funds.

We will notify you when these changes become law.

From the Director

Continued from Page 1

The plaintiffs' calculation method yields a retirement benefit approximately 11 percent higher than the Retirement Systems' method. This approximate difference will occur in all cases where a retiree has 45 days of unused leave, regardless of salary.

The Court's decision requires the recalculation of benefit amounts for members who retired since 1986 and reimbursement of underpayments back to 1992. The recalculation of benefits will also apply to future benefit payments for all post-1986 retirees. Almost 50,000 members who retired since 1986 may be eligible for a recalculation of their benefit.

Actuarial and accounting standards require that the Supreme Court's calculation method must be applied to all 200,000 active members in addition to the members who retired or will retire between 1986 and 2001. The Retirement Systems does not have the discretion to revise the benefit amount backwards and then ignore the law for those same retirees in all future payments, or for all future retirees.

We cannot ignore the future liability created by the new method of calculation. The Retirement Systems' actuary estimates future liability of about $1.7 billion. The retroactive liability is $200-$250 million and approximates the estimate used by the plaintiffs and the Court.

These estimates are based on an assumption of 22.5 days average annual leave credit at retirement. The retroactive liability does not include interest that might be awarded by the lower court. In total, the recalculation of the retirement benefit may cost the Retirement Systems almost $2 billion.

We are uncertain of other effects the Court's decision will have on your future benefits. As you may know, retirees usually receive annual cost-of-living adjustment (COLA) increases funded from the trust fund. For a COLA to be granted, the Retirement Systems' actuary must first determine that the systems' assets are sufficient to fund the COLA. Then, the State Budget and Control Board must approve the COLA. The liability resulting from the Court's decision may affect the systems' ability to fund future COLAs. If Retirement Systems' funds are insufficient, the Board will likely ask the General Assembly to fund the COLA in the General Appropriations Act.

The State Budget and Control Board requested a reconsideration of the Supreme Court's decision June 21, 2000. On July 24, 2000, the Supreme Court granted the State Budget and Control Board's request for a rehearing of the Court's decision, which will provide an opportunity for new arguments to be heard.

Although there is uncertainty as to the full impact of the Court's decision and as to whether that decision will change, we will continue to monitor the situation and advise you of any developments.

Bob Toomey

Prorated benefit at retiree's death eliminated

Effective July 1, 2000, the final month's benefit paid when a retired member dies is no longer prorated.

If the monthly benefit has not already been paid to the deceased member, then the retired member's beneficiary or estate is entitled to receive the entire benefit amount for the month in which the retiree's death occurs.

If a retiree selects a survivor benefit for his or her beneficiary, the monthly payment will begin the month following the retired member's death.

We will notify you when this change becomes law.

Cost-of-living adjustment formula changes

Effective January 1, 2001, if an annual cost-of-living adjustment (COLA) for retirees is approved, the COLA will be calculated as follows: if the Consumer Price Index (CPI) increases at least 4 percent in the previous year, the COLA will be 4 percent; if the CPI increases less than 4 percent, the COLA will be equal to the CPI increase. ***We will notify you when this change becomes law.***

Effective July 1, 2000, the COLA for retirees and beneficiaries of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) will be 2.7 percent.

Payment plan changes effective January 1, 2001

Effective January 1, 2001, the payment plans available to you at retirement will change. These changes affect both the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS).

Option A (Maximum Retiree Only)

Option A is a retiree only monthly annuity plan that will pay you a standard lifetime benefit based on your average final compensation, years of service, and a multiplier. Upon your death, the Retirement Systems will return, through a lump-sum payment to your beneficiary, or your estate, any member contributions and interest not paid to you in benefits during your retirement.

Option B (100% - 100% Joint Retiree-Survivor)

Option B is a joint retiree-survivor plan through which you will receive a reduced (from the maximum) monthly benefit for life. Upon your death, the benefit (100 percent of your benefit including granted cost-of-living increases) will continue throughout your beneficiary's lifetime. If your designated beneficiary predeceases you, your benefit will revert to Option A (maximum payment plan), including cost-of-living increases granted since your retirement date.

Option C (100% - 50% Joint Retiree-Survivor)

Option C is a joint retiree-survivor plan similar to Option B; however, upon your death, your beneficiary will receive one-half of your benefit for his or her lifetime.

If you designate multiple beneficiaries, all beneficiaries must predecease you to revert to Option A.

Change in marital status

Regardless of the original option selected, you may select a new beneficiary and option within one year of a change in marital status. You may make this change only twice. Reverting to Option A counts toward this limitation of post-retirement changes.

Retiree Group Life Insurance increases

The life insurance amounts paid to a retired South Carolina Retirement System (SCRS) or Police Officers Retirement System (PORS) member's beneficiary will increase to the amounts below effective July 1, 2000.

We will notify you when these changes become law.

SCRS years of service	PORS years of service	Life insurance amount
10 - 19 years	10 - 19 years	$2,000
20 - 29 years[1]	20 - 24 years	$4,000
30 years or more[1]	25 years or more	$6,000

[1]Effective January 1, 2001, 28-year retirement for SCRS members takes effect and will change these amounts to *20-27 years* for the $4,000 benefit amount and *28 years or more* for the $6,000 benefit amount.

This issue of *Systems Update* is dedicated to Purvis Collins, former Retirement Systems director, who died April 7, 2000.

Employee of the year

Elaina Julian, Imaging department, was named 1999-2000 Employee of the Year in a June 7, 2000, ceremony at the Retirement Systems.

Sharon Pigage, Service department, and **Glenn Plummer**, Data Processing, were finalists.

Other nominees were: **Maureen Carter** (Financial Services); **Patricia Chandler** (Benefits Payroll); **Ronald Davis** (Customer Services); **Brad Douglass** (Data Processing); and **Edna Tucker** (Imaging).

Congratulations to all!

Marilyn Abrams, a customer service manager with the Retirement Systems, received a Tribute to Women and Industry (TWIN) Certificate of Recognition award in May from the YWCA of the Midlands. Congratulations, Marilyn!

Public school teachers, administrators hired after June 30, 2000, have alternative retirement option

South Carolina public school teachers and administrators hired after June 30, 2000, have an alternative to participation in the South Carolina Retirement System (SCRS). This optional retirement program, the State ORP, is similar to the ORP already available to certain employees of institutions of higher education.

Although eligible employees make the same contribution to the State ORP as to the SCRS, the plan types are quite different. The State ORP is a *defined* ***contribution*** *plan*. State ORP participants contribute to a fund for which **only the contribution is defined**. The level of a State ORP participant's retirement benefit may rise or fall based on investment performance and benefits will cease when contributions are exhausted.

In contrast, the SCRS is a *defined* ***benefit*** *plan*. SCRS members contribute to a fund for which **a clearly defined and guaranteed level of benefit** will be paid to SCRS members when they retire. These promised benefits cannot be reduced and are paid to SCRS members for their **lifetime**.

Potential advantages of the State ORP include a feature that allows ORP participants to transfer their retirement account, thereby increasing their mobility and broadening their career choices. The State ORP also allows its participants to receive an annuity, a lump-sum or partial distribution, or periodic withdrawals at retirement.

A full-time employee of a South Carolina public school or school district hired after June 30, 2000, must be working in one of the following capacities to participate in the State ORP instead of joining the SCRS:

- Certified and teaching in the classroom;
- Assisting a certified classroom teacher;
- A professional specialist having direct contact with students;
- An academic subject, or specialty area coordinator or director working in a public school or public school district; or
- A principal, vocational center director, assistant principal or vocational center assistant director, district assistant, county or area superintendent.

Eligible employees hired after June 30, 2000, must elect membership in the State ORP or in the SCRS by December 1, 2000, or within 90 days of their hire date, whichever is later. After 60 months of employment, employees participating in the State ORP will have a onetime opportunity to revoke their ORP participation and elect to join the SCRS. A State ORP participant who takes advantage of this opportunity and joins the SCRS may establish up to five years of credit for service earned while participating in the State ORP by making a payment to the SCRS based on the cost of purchasing public service.

The South Carolina Retirement Systems will provide for the administration of the State ORP. The Retirement Systems has chosen the following companies to provide the annuity contracts and investments provided for in the State ORP:

- Aetna Investment Services, Inc.
- American General Retirement Services
- CitiStreet
- TIAA-CREF

The South Carolina Department of Education will be responsible for determining which employees are eligible to participate in the State ORP.

If you have any questions or need additional information about the State ORP, contact your employer or contact the Retirement Systems toll free at 1-800-868-9002 (in SC only) or at 1-803-737-6800.

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